

06-09-05

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

— In the Matter of —  
  
PUBLIC UTILITIES COMMISSION  
  
Instituting a Proceeding to Investigate  
Competitive Bidding for New Generating  
Capacity in Hawaii.

---

)  
)  
)  
)  
)  
)  
)

DOCKET NO. 03-0372

PUBLIC UTILITIES  
COMMISSION

2005 JUN -9 P 1:27

FILED

HAWAII RENEWABLE ENERGY ALLIANCE

RESPONSE TO INFORMATION REQUESTS FROM THE PUBLIC UTILITY COMMISSION

AND

CERTIFICATE OF SERVICE

Warren S. Bollmeier II, President  
HREA  
46-040 Konane Place #3816  
Kaneohe HI 96744

(808) 247-7753

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

— In the Matter of —	)	
	)	
PUBLIC UTILITIES COMMISSION	)	DOCKET NO. 03-0372
	)	
Instituting a Proceeding to Investigate	)	
Competitive Bidding for New Generating	)	
Capacity in Hawaii.	)	

---

**I. INTRODUCTION AND SUMMARY**

In accordance with Public Utilities Commission's (PUC's) Prehearing Order No. 20923, dated April 23, 2004, the Hawaii Renewable Energy Alliance (HREA) hereby submits our response in Section II below to IRs submitted by PUC on May 13, 2005

**II. HREA's Response to PUC IRs**

Note: HREA is responding only to those IRs specifically addressed to HREA, to all Parties, and to Parties urging competitive bidding.

**PUC-IR-1 (Parties urging competitive bidding) Ref: CA SOP at 3; HESS SOP at 1; HREA SOP at 2.**

Please identify, if any, specific examples of efficiencies or innovations foregone in Hawaii as a result of the absence of competitive bidding?

HREA Response: Probably the biggest efficiencies or innovations foregone have occurred on account of our state mini-PURPA law. Specifically, negotiations with Independent Power Producers (IPPs), and especially renewable IPPs, have taken years – six to eight years in the case of the original Kahua Ranch and Kaheawa Pastures projects, and the more recent Hawi and Kamao'a repower projects. In short, it has been now 12 years since Hawaii had a new renewable project. Note: in 1993, both Wailuku River Hydro and Puna Geothermal Ventures came on line, and the Hawi project is now under construction.

In contrast, if the utilities had previously been required to solicit others to provide new generation, including renewable projects, in an effectively-designed and implemented competitive bidding process, Hawaii could have had at least 60 MW of new windfarms in place and operating in the 2000 to 2002 timeframe.

**PUC-IR-3 (All Parties)** Ref: HECO SOP, Exhibit A at 4; HREA-HECO-IR-9.

These references address the potential for an increased reliability risk as a result of the implementation of competitive bidding and purchased power. Please elaborate on the solutions to this potential problem, and specifically identify potential mitigating factors that can be incorporated into the competitive bid process.

HREA Response: First, HREA would like to be clear as to what is meant by reliability risk. For the purpose of our response to this IR, HREA assumes that "increased reliability risk" refers to the increased probability that the utility would NOT be able to meet its load at any given time. Given that, HREA believes that new power plants added to our existing utility grids will increase reliability and, hence, reduce reliability risks as defined herein. Furthermore, the following steps can be taken to address concerns of the incumbent utilities and mitigate potential reliability risks:

1. desired reliability standards can be specified in the RFP or contract as appropriate, e.g., if the goal is to add "firm" capacity during peak hours, the desired level of reliability can be specified in the RFP and included as a contract term, leaving the new generator the choice of providing its own back-up or incurring financial penalties for failure to meet contractual standards, awarding contractual incentives for more reliable performance, etc.;
2. assuming that the percentage of IPP power increases in our islands, the incumbent utility could retain a larger operational reserve on its existing units, as appropriate, to enhance system reliability;

3. spinning reserve can be added to the grids to enhance reliability, as is done on HECO's Oahu grid. HREA would like to note that pumped hydro storage is an especially attractive option for providing spinning reserve; and
4. reliability can also be increased generally through specifying increased diversity in the fuel(s) used for new generation, specifying siting of new generation close(r) to the point of consumption, thereby avoiding distribution bottlenecks.

**PUC-IR-10 (All Parties)**

If the Commission requires competitive bidding, what would be the disadvantages of requiring independent competitors to limit their participation to turnkey projects, at least initially, so that the utility would have maximum control over the project operations upon construction?

HREA Response: First, HREA does not believe that utility ownership and operation, regardless of the type of resource, is necessary to achieve maximum control over project operations. Assuming, however, that the PUC determines that it is appropriate to implement the next one or more generation facilities as a turnkey project(s), the primary disadvantage, in our opinion, would be that this would not be the lowest cost approach. Specifically, regardless of who builds the facility, if the utility ultimately owns and operates the facility, this will place a larger financial burden on the ratepayers.

**PUC-IR-12 Ref: HECO-HREA-IR-5(b)(2)at 6 states:**

For example, would the failure to meet predicted system availability become a basis for a penalty? We are not aware of case where this has been done elsewhere. Also, if the utility is not going to be subjected to a penalty, which is the current case with our RPS law, why should the windfarm owner/operator?

- a. **(HREA)** Please clarify what the "penalty" would be for, as the term is applied to the utility performance under the RPS law. Is this "penalty" associated with the system availability or reliability provided by the utility?

HREA Response: First, we are raising the question as to whether a renewable provider should be penalized for NOT achieving its projected output in a given year. Given that the utility is not subject to penalties for non-compliance under our current RPS law, we do not believe

there should be penalties placed by the utility on renewable providers. However, if there were to be penalties placed on the utility and subsequently on renewable providers, such a penalty could be based on a provider's guarantee of the project's system availability. Specifically, if the project system availability was 85%, when the guarantee was 90%, then that could be the basis for a penalty.

- b. **(All Parties)** What type of provisions can be reasonably incorporated into as-available contracts to encourage the IPP to improve on system availability and/or reliability?

HREA Response: There could be incentives to renewable providers that exceed projected electricity outputs in a given year. For example:

1. a windfarm operator might anticipate an annual capacity factor of 35% and guarantee a system availability of 90%. Therefore, the actual average annual electricity output (MWH/yr) would be expected to be 31.5% of the project's rated capacity ( $35\% \times .9$ ) in MW times 8760 hours/year. However, the actual annual outputs will vary from year to year based on the actual wind resource at the site. Given the actual measured wind resource in a given year, the projected electricity output (assuming provider's guarantee of system availability) could be compared with the actual electricity output. If the actual output exceeded the projected output, that could be the basis for an incentive payment to the renewable provider, and/or
2. Time-of-use payments could be re-designed to incentivize better payments for on-peak hours. Specifically, it would be much better to have hourly the time-of-use payments, as opposed to the current on-peak/off-peak design. Finally, these payments should incorporate both energy and capacity components.

**PUC-IR-13 (HREA) Ref: HECO-HREA-IR-5(b)(2)at 6.**

HREA notes that it would “like to consider this type of requirement further” (at line 23). Please expand and explain what is being proposed for consideration.

HREA Response: We believe the issue of potential penalties for non-compliance with our RPS law requires further discussion, as indicated in the above reference. For further discussion purposes, we believe the following questions need to be addressed:

1. If any Party (utility, utility-affiliate or non-utility) is at fault, given circumstances within its control, for non-compliance with the RPS law, should that Party(ies) be penalized?
2. If so, what should the nature and extent of the penalty be?
3. If so, should the penalty be borne solely by the non-compliant Party, and, for example, not be passed on to the ratepayer?
4. If there are potential penalties, should there also be potential incentives, and how should such incentives be designed and implemented?

**PUC-IR-19 (All Parties) Ref: CA SOP at 60.**

...an electric utility must be prepared with a “backstop” plan (i.e., the specific resources that the utility would develop and put into rate base if necessary to meet its service obligations. The backstop plan may be satisfied by the utility’s resource proposals.

If a utility has a “backstop” plan that can be satisfied by its resource proposal, does this mean that it is always effectively competing with other bidders?

HREA Response: If the utility provides a backstop plan that is known to the other bidders, the other bidders would effectively be competing with the utility. Likewise, if the backstop plan is not known to the other bidders when they make their bids and is only unveiled if none of the other bidders produces a viable [or least cost] project, HREA would say “yes,” that the utility would effectively be competing with other bidders. HREA would like to note that we believe “backstop” approach, as proposed by the CA, is substantially similar to the Model 1 approach as proposed by HREA in our preliminary statement of position (PSOP), pages 11 -12.

**PUC-IR-23 (All Parties)**

What measures can and should be taken to avoid self-dealing or an unfair competitive advantage over other bidders (or even the appearance of such)?

HREA Response: In our opinion, if the utility is in competition with other bidders, HREA believes that there will always be the potential for self-dealing or an unfair competitive advantage over other bidders. Moreover, the potential for even the appearance of such will likely deter some bidders from participating in a competitive bidding process. In HREA's view there are two basic approaches to avoid these possibilities:

1. No Utility Bids. In this case, the utility would be precluded from bidding; and
2. Critical PUC Oversight. In this case, we concur with the CA<sup>1</sup> that the PUC should "establish its critical oversight role regarding competitive bidding practices." In our view, this role would include:
  - a. Guiding and monitoring the utility as it establishes and implements its own "best practices" in competitive bidding processes;
  - b. Approving the utility's procurement plan as developed in IRP, including assistance from IRP Advisory Groups and industry experts<sup>2</sup>;
  - c. Monitoring leading the implementation of specific RFPs, e.g., with the services of an Independent Contracting Agent (ICA) or an Independent Evaluator as suggested by the CA<sup>2</sup>. HREA also supports the solicitation guidelines as proposed by the CA<sup>3</sup>. These include the four principles: transparency, definition, evaluation and oversight; and
  - d. Ensuring that there was no utility self-dealing or undue competitive advantage taken by the utility over other bidders, prior to awarding a contract to the utility as the result or one of the results of a competitive bidding process.

---

<sup>1</sup> Reference: CA SOP, dated March 14, 2005, pages 44 and 55 to 56.

<sup>2</sup> This comports with the CA's position, CA SOP, page 49.

## PUR-IR-24 (All Parties)

What is the desirable outcome of this proceeding -- a specific competitive bidding procedure, a specific change to the IRP process, a specific model RFP, a specific model PPA, or anything else?

HREA Response: HREA envisions several desirable outcomes of this proceeding in tiers as follows:

1. Tier 2 (Presumption of Competitive Bidding). HREA supports competitive bidding for securing all new resources, and seeks competitive policies and procedures from this proceeding. Specifically, competitive bidding should be the default approach, or as stated by the CA – “a rebuttable presumption that competitive bidding will be implemented to address the incremental resource needs of all jurisdictional utilities<sup>4</sup>.”
2. Tier 2 (Presumption of IPPs or Energy Service Providers for New Resources). Similarly, HREA supports a default approach (or rebuttable presumption) that IPPs or Energy Service Providers (ESPs) are preferred for new resources, and the utility is the provider of last resort. Specifically, when the utility desires to bid against IPPs and/or ESPs, HREA can support an approach where the utility proposal is provided as a baseline against which bids are sought (i.e., HREA’s Model 1 as proposed in our PSOP, pages 11 to 12) or as a “backstop plan” as proposed by the CA (their SOP, page 60). As mentioned previously, we believe these two approaches are substantially similar.
3. Tier 3 (Roles of the PUC and the Utility in Implementing Competitive Bidding). As discussed in response to PUC-IR-23, HREA supports a proactive, critical oversight role for the PUC, and implementation of competitive bidding by the utility using “best practices” and subject to more direct involvement by the PU,

---

<sup>3</sup> CA SOP, pages 58 to 60.



in the cases where the utility chooses to compete and/or to provide a "backstop plan." This direct involvement could involve the use of an ICA or an Independent Evaluator to assist the PUC in designing and implementing specific competitive bidding processes.

**PUC-IR-25 (All Parties)** Ref: HECO SOP at 12; CA-HECO-IR-6; HREA-HECO-IR-14.

- a. Should the competitive bidding process be of a "framework" nature, i.e. a set of guidelines in the form of an enforceable Commission order (which would involve an evidentiary hearing to test the recommendations of the various parties to the proceeding)?

HREA Response: HREA supports competitive bidding as a logical element in our existing IRP framework as a means of securing resources that have been identified in the utilities' IRPs. As a result of this Proceeding, HREA believes that the Commission should be able to set guidelines in the form of an enforceable Commission order. However, we are not sure an additional hearing would be required beyond that envisioned for this Proceeding.

- b. If the answer to (a) is "yes", then if the Commission does decide to initiate a proceeding to develop the competitive bidding "framework", should it hold public hearings, workshops and/or panel format hearings?

HREA Response: HREA would hope that an additional proceeding could be avoided, if only because the competitive bidding for new generation requirement has been "on its way" to Hawaii since 1996 and the time has come to implement it, *before* the next round of central generation is installed. Either way the Commission decides, however, it might be useful to hold a series of public hearings to present the proposed competitive bidding framework to the community.

- c. If the answer to (a) is "no", then should the competitive bidding process be established through a rulemaking proceeding (which would necessitate public hearings and comments)?

HREA Response: Not applicable.

---

<sup>4</sup> CA SOP, page 45.

**PUC-IR-26 (All Parties except CA) Ref: CA SOP at 4; HECO-CA-IR-4.**

- a. As advocated by the Consumer Advocate, should each utility be allowed to design its own competitive bidding process according to current "best practices," subject to commission approval?

HREA Response: Yes

- b. How should "best practices" be determined?

HREA Response: The "best practices" should be developed by the utility, based on its own experience, and after a review of recent experience on the mainland and solicitation of input from the PUC, IRP Advisory Groups, industry experts, and the ICA or Independent Evaluator.

- c. Should the Commission provide guidelines to the utilities regarding what it considers to be current "best practices"?

HREA Response: Yes.

**PUC-IR-27 (All Parties) HECO SOP, Exhibit A at 34 states:**

... the development of competitive bidding rules and guidelines should be developed from the ground up without superimposing another state's system directly in Hawaii.

Is HECO aware of any state system that could profitably be used as a starting point for developing Hawaii's competitive bidding rules or guidelines, in order to reduce the cost and time required to develop them from the ground up? What aspects of such state's approach are particularly helpful?

HREA Response: HREA believes that a number of states have had experience now with competitive bidding which could benefit Hawaii. These include:

1. Maine and Oregon: as suggested by the CA in their SOP;
2. New York: as suggested by HREA in our PSO IR responses<sup>5</sup>. A copy of the referenced report is attached; and

---

<sup>5</sup> C. Goldman, J.F. Busch, E. Kahn, S. Stoft, and S. Cohen, "Review of Integrated Resource Bidding at Niagara Mohawk," LBL-31667, April 1992.

3. Colorado: Xcel Energy recently issued a RFP for renewable energy resources as part of Colorado's new RPS law, and is negotiating contracts for 128 MW of new windfarm projects in Colorado<sup>6</sup>.

**PUC-IR-30 (HREA) Ref: HREA SOP at 10-12.**

- a. **Does HREA have a preference between its proposed Model 1 and Model 2 for competitive solicitation? What are the advantages and disadvantages of each Model?**

HREA Response: HREA prefers Model 2, as we believe competitive bidding will work best if the utility is not participating. If the utility chooses and is allowed to participate, then Model 1 is preferred. The advantages of these models are as follows:

1. Model 1 (Competition Based on Utility Proposal). As proposed in our PSOP,

Model 1:

- i. Allows for competitive bids against a utility "default" (or backstop) proposal. This approach provides transparency and definition in terms of the utility's needs and projected costs, which in essence are its marginal costs for the identified resource addition. The bidders are evaluated, in part, by their ability to meet or beat the utility's default proposal;
- ii. Assumes the utility has identified a site, but Model 1 could also have the flexibility for bidders to propose alternate sites; and
- iii. With a critical, proactive PUC oversight (including an ICA or Independent Evaluator), concerns about utility/affiliate self-dealing or an unfair competitive advantage can be addressed and minimized.

2. Model 2 (Open Competition with IPPs Only). As proposed in our PSOP, Model 2:

- i. Reduces, if not eliminates, concerns regarding self-dealing and an unfair competitive advantage, as the utility would not be allowed to bid and

---

<sup>6</sup> See: <http://www.xcelenergy.com/docs/corpcomm/PSCo2004RenewableEnergyRFP.pdf>

would have every incentive to make sure that the bidding process worked and yielded viable, least cost, and RPS-compliant projects;

- ii. Allows for more innovation in proposals, as the RFP technical requirements would likely be more flexible than a Model 1 approach;
- iii. Probably would not require an ICA or Independent Evaluator, unless the PUC wished to monitor and evaluate a specific competitive bidding process; and
- iv. Should work equally well for an all-sources bid or for a technology-specific bid, such as for renewables to meet our state RPS.

The disadvantages we see of these models are as follows:

1. Model 1 (Competition Based on Utility Proposal). As proposed in our PSOP,

Model 1:

- i. There would be additional costs for the preparation of the utility “default” (or backstop) proposal and an ICA or Independent Evaluator to assist the PUC;
- ii. Some bidders may be reluctant to bid on account of concerns about utility pressure not to bid in competition with the utility, lack of cooperation by the utility on this and/or other business ventures, retaliation by the utility, self-dealing between the utility and any affiliate, and/or an unfair competitive advantage in bid selection; and
- iii. There could be some transitional issues for an IPP that wins the award, e.g., permitting and other siting issues.

2. Model 2 (Open Competition with IPPs Only). As proposed in our PSOP, Model

2:

- i. There would be some risk, albeit likely low, that none of the bids would be found to be acceptable; and

ii. If the bidding process is not initiated far enough in advance, there is also a risk that anticipated construction and operation timelines might not be met. This could happen if the solicitation, evaluation and selection process, and/or contract negotiations took longer than planned.

b. Can both Model 1 and Model 2 be used if competitive bidding is implemented – or are they mutually exclusive?

HREA Response: Models 1 and 2 are not mutually exclusive. We believe that both could and should be used, depending on the specific resources being sought.

**PUC-IR-31 (All Parties except KIUC) Ref: HREA-KIUC-IR-1.**

a. Should the competitive bidding process be different for an IOU than for a co-op?

HREA Response: We do not believe so. However, the determination of what constitutes a cost-effective bid from an IOU will differ from that of a co-op, as the potential impacts on ratepayers will be different. Similarly, the model for evaluating bids may be different.

b. Please comment on KIUC's contentions that competitive bidding should be used by it only when KIUC initiates the process and has sole authority for key project decisions.

HREA Response: As noted above in part a., we believe the process should be the same for a co-op as for an IOU.

c. Please comment on KIUC's contentions that its Board of Directors "provides the same oversight and risk mitigation for its members as would an ICA [independent contracting agent] for ratepayers of an investor-owned utility."

HREA Response: We would disagree that KIUC's Board of Directors could provide "the same oversight and risk mitigation for its members as would an ICA [independent contracting agent] for ratepayers of an investor-owned utility." There could be an exception if one or more of its Board members were an experienced ICA by profession.

**PUC-IR-36 (HREA) Ref: HECO-HREA-IR-16.**

- a. Does HREA suggest that the IRP framework should be modified to incorporate its specific recommendations with respect to the role of the Advisory Group?

HREA Response: At the present time, we believe our recommendations with respect to the role of the Advisory Group can be incorporated into the existing IRP framework. We reserve the right to additional comments at a later time.

- b. If so, please specify the modifications it would seek referring specifically to the content of the current framework.

HREA Response: Not applicable

- c. If not, explain what Commission actions HREA would seek.

HREA Response: We would ask that the Commission amend its IRP rules to incorporate HREA's recommendations into the Commission's Decision & Order on this Proceeding.

**PUC-IR-37 (All Parties except CA) Ref: e.g., CA SOP at 51-54.**

Can a competitive bidding program succeed in the absence of the changes proposed by the CA to the IRP Process?

HREA Response: HREA supports the changes to the IRP rules to enhance the benefits of competitive bidding by improving the information available to stakeholders in deciding among alternative procurement strategies. It may be possible for a competitive bidding program to succeed in the absence of the CA's proposed changes. However, this question appears to be moot, as we believe the CA's proposed changes appear to be relatively straightforward and painless to implement.

**PUC-IR-39 (All Parties)**

- a. Should the competitive bidding process be an "open" bidding process, wherein the utility or the commission develops self-scoring criteria and bidders know what the utility is seeking and how the bid will be evaluated?

HREA Response: The competitive bidding process should be "open." Specifically, the bidders should be provided, e.g., in the RFP package and discussed at a pre-bidders' conference, all the details of the evaluation process, including the evaluation criteria, the relative weighting of scored criteria and an explanation of how non-scored criteria will be incorporated into the evaluation process. However, "self-scores" should not be determinative.

- b. Or should it be a "closed" bidding process, wherein the utility provides general guidance about planning objectives, but does not reveal all of the information about the evaluation process?

HREA Response: The bidding process should NOT be "closed." If so, it is quite likely that such a process will be viewed negatively and reduce the number of bidders.

**PUC-IR-40 (All Parties) Ref: CA-HECO-IR-7.**

- a. Should competitive bidding be required for all transactions, required but subject to exceptions, or merely encouraged but not required?

HREA Response: HREA supports competitive bidding for all transactions, subject only to exceptions as approved by the PUC.

- b. If there are to be exceptions to a competitive bidding requirement, what should those exceptions be based on?

HREA Response: HREA believes there could be exceptions could be based on:

1. Emergency Situations. Primarily we see this exception being invoked when a critical utility system fails and a replacement or major repair is needed as soon as possible. Even so, the utility should be required to bid out the major components needed for the replacement or repair;

2. Special Requirements. A sole-source procurement may be justified if it can be shown that there is only one source that can meet special requirements for a resource addition or major repair or retrofit of an existing resource;
3. Size, Cost and Quantity of the Resource. There may be a resource size, cost or quantity threshold below which the cost of a competitive bidding process may not be cost-effective. HREA offers the following comments:
  - i. Renewable Hawaii, Inc. Renewable Hawaii, Inc. (RHI), in its two rounds of RFPs for renewable projects, established a 1 MW threshold for individual project proposals. In part, HREA believes the 1 MW threshold was established as the minimum size for a meaningful project, in terms of the potential electricity contributions to our RPS and also to be of interest for a possible RHI investment. However, the cost of a 1 MW facility could vary from \$2M to \$10M, depending on the technology employed. Therefore, size by itself should not be used as a single criterion;
  - ii. Distributed Generation. A Distributed Generation (DG) at a utility sub-station might be exempted from the competitive bidding process for IPP. If so, the exemption might be justified if the DG was a small (less than 1 MW) single DG unit with anticipated low installed cost (less than \$1M/MW). However, HREA would like to emphasize that such an exemption should be approved by the PUC on a case-by-case basis; and
  - iii. Customer-Sited Generation. HREA does not believe customer-sited generation projects, such as Combined Heat and Power (CHP), should be exempted from competitive bidding. In fact, such projects would be excellent candidates, in our view, for a competitive bidding process for DSM options in IRP.



**PUC-IR-41 (All Parties) Ref: HECO-HREA-IR-6.**

- a. Should there be a "dollar threshold above which competitive bids would be required"?

HREA Response: HREA supports competitive bidding of all resources, unless the utility can justify an exception that is approved by the PUC. If the PUC determines there should be a "dollar threshold", HREA does not believe there should be a "firm" threshold solely based on the cost of a desired resource. As noted above in our response to PUC-IR-40, we believe that at least two additional factors should be considered in determining a potential threshold, i.e., size and quantity. Again, HREA believes this determination should be made by the PUC on a case-by-case basis.

- b. How should this dollar threshold be determined, and how often should it be reevaluated?

HREA Response: See response to part a. above.

**PUC-IR-42 (All Parties) Ref: CA-HECO-IR-7.**

Should "near-term" needs be exempted from the competitive bidding process? If so, how should "near-term" be defined?

HREA Response: No.

**PUC-IR-44 (All Parties) Ref: CA-HECO-IR-9; HECO-HREA-IR-11.**

Should the competitive bidding process differ depending on what type of resource is to be acquired (e.g., renewable resources, new technologies, and traditional resources; supply-side and demand-side resources, as-available v. firm capacity resources; and distributed resources)?

HREA Response: Yes.

**PUC-IR-45 (All Parties)**

Concerning relations between developers and utilities, what are the most likely areas of dispute, and what Commission involvement (e.g., rules upfront, vs. dispute resolution later) is best suited to minimize these disputes?

HREA Response: HREA believes the negotiation of a power purchase agreement (PPA) with the utility is the most likely area to be contentious and subject to disputes. HREA believes that Standard Offer Contracts (SOCs) should be developed and implemented with industry input under the review and approval of the Commission. If SOCs are included in RFP, for example, for new resources requiring sales of electricity to the utility from IPPs, HREA believes this would help expedite PPA negotiations and minimize disputes.

**PUC-IR-52 (All Parties) Ref: CA SOP at 20.**

Competitive bidding is one [mechanism for procurement]. The others include auctions, standard offers and selection through direct negotiations as well as approaches that combine elements of these mechanisms...

- a. Should the Commission consider mechanisms like auctions, standard offers and others identified by the CA as part of this competitive bidding docket?

HREA Response: HREA does not see that mechanisms like “auctions, standard offers and others” are appropriate to competitive bidding in Hawaii at least at this time. We believe the market in Hawaii is too new for auctions, e.g., the infrastructure is missing. Auctions of electric power supplies are usually carried on electronically on a regional basis for the last increment of demand—this method of procurement is for mature markets where there are multiple buyers and sellers—not our situation here. Regarding standard offers, we understand that to mean standardizing the unit of energy or capacity so you can have exchange traded futures, etc. This also doesn't make sense here. Consequently, we would say that we may be able to evolve into these other mechanisms, but let's start with having competitive bidding for new generation of all sizes, which is what the parties had agreed upon as feasible and potentially beneficial for Hawaii at the end of the electric restructuring docket, No. 96-0493.

- b. Identify those situations where other methods such as standard offers or direct negotiations might be appropriate alternatives to competitive bidding.

HREA Response: HREA believes that standard offers could play an important role in DSM solicitations. For example, if the utility is seeking alternative DSM options, a standard offer

could be used to simplify the understanding between the bidders and the utility, e.g., interconnection requirements and other terms and conditions. On the other hand, HREA cannot support direct negotiations, unless there is an exception approved by the PUC. (See also our response to PUC-IR-40).

**PUC-IR-53 (All Parties) Ref: HECO-CA-IR-34 at 67.**

What are the benefits and drawbacks to a utility offering utility-controlled sites for 3<sup>rd</sup> parties to develop in the competitive bidding process? What terms and process should apply?

HREA Response: The biggest benefit in this case is that a site has been identified by the utility for a desired resource, e.g., a combustion turbine project at Kahe on Oahu, and the utility has prepared or is in the process of preparing a specific proposal, that can become the "default" or "backstop" proposal as been discussed previously herein. Given this, HREA notes there is a basis for implementing a competitive bidding process utilizing HREA's proposed Model 1 approach per our discussion on pages 11 to 12 in our PSOP. We also would like to note that our discussion in the PSOP addresses the basic terms and process that would apply.

We do not see any significant drawbacks to implementing this approach. There would be, as discussed previously, the costs of the parallel utility proposal and permitting costs for transitioning the project from the utility to a successful IPP bidder. (See also our responses to PUC-IRs-22, 24 and 30).

**PUC-IR-55 (All Parties) Ref: CA SOP at 56 states.**

The Commission should ensure that a utility's RFP design and bid package materials are developed in a manner that will ensure an appropriate measure of transparency.

- a. **(CA)** Please specify the components of "appropriate measure of transparency."

HREA Response: Not applicable

- b. **(All Parties)** What features should be included in the RFP design and bid packages to provide enough information about the selection process so as to maximize participation by the widest possible range of bidders?

HREA Response: HREA believes there are key features include:

1. A thorough discussion of the proposal evaluation process,
2. Inclusion of a SOC(s) for PPAs, and
3. Standard interconnection agreements, separate or as part of the SOC.

**PUC-IR-56 (All Parties)**

- a. Should the Commission have an active role in the RFP development process?

HREA Response: Yes.

- b. Should an independent consultant be hired to provide input and recommendations to the utility and Commission regarding the drafting of the RFP? If so, who should fund the cost of the independent consultant?

HREA Response: Yes. The PUC should fund the cost of the independent consultant.

- c. Should the utility independently develop the RFP (subject to approval by the Commission prior to its issuance)?

HREA Response: HREA believes the utility should develop the RFP, subject not only to approval by the Commission prior to its issuance, but also subject to input and recommendations by an independent consultant as appropriate. As discussed previously, HREA supports a proactive, critical role for the Commission (including use of an Independent Consultant) in competitive bidding processes in which the utility chooses and is allowed to bid.

- d. Should the utility hold a workshop with potential bidders and other interested parties prior to the release of the RFP, and potentially incorporate comments and suggestions into the final RFP?

HREA Response: Yes and yes.

**PUC-IR-57 (All Parties)** Ref: HREA SOP at 13; HECO-HREA-IR-11; CA SOP at 3; HECO-CA-IR-3.

- a. Should different types of resources (e.g., renewable resources, new technologies, and traditional resources; supply-side and demand-side resources, as-available v. firm capacity resources; and distributed resources) compete through the same RFP? or

HREA Response: HREA believes it may be possible and desirable to conduct an all-sources solicitation, particularly if it is clear from IRP what the best mix of resources should be. Otherwise, it may be better to focus on DSM resources first, then DG and renewables, then central generation (CG), adjusting the amounts of each based on a post-RFP evaluation in IRP.

- b. Should there be separate RFPs issued for different types of resources, which would all be issued simultaneously, to address a particular need?  
or

HREA Response: As noted above, we believe there is a logical progression to meet increased demand, starting with DSM, then DG and renewables and finally CG. This approach would suggest that separate RFPs be issued for each of the types of resources. There will also be times when all resources should be pursued at the same time.

- c. Should a solicitation be targeted to a particular resource for a particular need, such that there will only be one RFP issued at one time

HREA Response: This could be the case. For example, HREA notes that RHI has recently issued two rounds of RFPs for renewables only. In the past, HECO issued a RFP for conventional CG only. In any case, we believe the decision for targeting particular resources should be made in IRP with review and approval of the PUC.

- d. Where different types of resources compete through the same RFP, what criteria should be used to evaluate the different benefits of different resources?

HREA Response: HREA believes there are a number of ways to compare different types of resources including ranking of the proposals based on the:

1. cost of delivered or avoided kWhs (energy);
2. cost of delivered or avoided kWhs (capacity);
3. level of fossil emissions introduced or avoided to our atmosphere;
4. net impact on the number of jobs created or lost;
5. net impact on the state's economy (increase or decrease in state gross product);
6. net impact to the ratepayer (increase or decrease in rates and net bills);

7. increase or reduction in the amount of imported fossil energy; and
  8. reduction in the exposure to fuel price volatility and supply (e.g., through use of long-term fuel contracts, use of renewable fuels produced locally or imported, and analysis of fuel price risks)
- e. Discuss the benefits and drawbacks of issuing one RFP for different types of resources versus targeted solicitations that seek a particular resource?

HREA Response: Referring to our response to parts a. to d., HREA sees the primary benefit of an all-sources solicitation as the ability to select resources to maximize the goals as specified in the solicitation (e.g., meet anticipated demand with the least cost approach considering all the evaluation criteria). On the other hand, the primary drawback would be the ability through IRP to craft such a solicitation, given that it may be difficult to create the detailed requirements and evaluation criteria for all desired sources all on the same timeline.

The primary benefit of targeted solicitations would be to meet near-term, highly-priority resource needs, and in times when detailed goals for all resource needs have not been established in IRP. The primary drawback would be the missed opportunity to determine the optimal mix of resources based on the results of an all-sources solicitation.

**PUC-IR-59 (All Parties)**

- a. Who should determine what the required qualifications for bidders (e.g. creditworthiness, reputation, experience) should be?

HREA Response: The determination of the required qualification for bidders should be included as part of each anticipated solicitation for competitive bids. HREA supports creation of a draft of the qualifications for bidders, subject to review and comment by the appropriate IRP Advisory Group members and industry experts, and review and approval by the PUC.

- b. Should the required qualifications of potential bidders be clearly outlined in the RFP?

HREA Response: Yes.

- c. Should a pre-qualification process be conducted on bidders before accepting bids?

HREA Response: Yes.

- d. If yes, who should pre-qualify the bidders?

HREA Response: The utility, subject to review and approval by the PUC, based on the approved qualification criteria (as discussed above in parts a. and b.).

**PUC-IR-60 (All Parties)**

- a. Should the Commission have an active role in the development of the bid evaluation criteria?

HREA Response: Yes. See also our response to PUC-IR-56.

- b. Should an independent consultant be hired to provide input and recommendations to the utility and Commission regarding the bid evaluation criteria? If so, who should fund the cost of the independent consultant?

HREA Response: Yes. The PUC should fund the cost of the independent consultant.

See also our response to PUC-IR-56.

- c. Should the utility independently establish the bid evaluation criteria (subject to approval by the Commission prior to its issuance)?

HREA Response: HREA believes the utility should develop the bid evaluation criteria, subject not only to approval by the Commission prior to its issuance, but also subject to input and recommendations by an independent consultant as appropriate. As discussed previously, HREA supports a proactive, critical role for the Commission (including use of an Independent Consultant) in competitive bidding processes in which the utility chooses and is allowed to bid. See also our response to PUC-IR-56.

- d. Should the utility hold a workshop with interested parties prior to the release of the RFP, to discuss the bid evaluation criteria so that bidders clearly understand how their bids will be evaluated?

HREA Response: Yes.

**PUC-IR-61 (All Parties)** Ref: HECO-CA-IR-12(b) states.

Some of the important factors may include, but are not limited to, generation system reliability and capacity requirements, opportunities to secure low-cost energy, renewables requirements, emissions impacts, location, risk exposure and rate impacts.

The above response identifies certain factors that should be considered in the review of competitive bid responses. Please identify any other factors that should be considered during the review of the competitive bids.

HREA Response: See our response to PUC-IR-57 part d. above.

**PUC-IR-62 (All Parties)** HECO SOP, Exhibit A, at 30 states:

To ensure that all reasonable options are effectively considered, there should be no unreasonable restrictions on sizes and types of projects. It is generally preferable that all types of eligible projects (e.g. supply-side options) have a fair opportunity to compete. (emphasis in original)

And HECO SOP, Exhibit A, at 32 states:

4. Price-related evaluation criteria are the predominant selection criteria. Non-price criteria are used to ensure the project or portfolio is viable and feasible but price is usually the ultimate determinant.

What mechanisms, if any, are appropriate to account for the non-monetary costs or benefits of different types of resources?

HREA Response: See our response to PUC-IR-57 part d. above. Please note that the referenced criteria can be quantified, and may or may not be price-related. In addition, there will likely be other non-monetary (or qualitative) criteria. Examples include such factors as selecting diverse set of resources, acquiring resources from local firms, giving credit for unquantified attributes of renewables, externalities, etc.

**PUC-IR-64 (All Parties)**

- a. Who should hire the Independent Consultant – the utility or the Commission?

HREA Response: The Commission.

- b. Should the Independent Consultant develop bid evaluation criteria and make a recommendation for the project award without input by the utility?



[Ref. HREA Response to HECO-IR-9 at 11] Or can the input be from all parties?

HREA Response: We support the role of the independent consultant to provide input and recommendations for project award to the PUC without input and approval by the utility. Our primary concern is for those cases where the utility or its affiliate is a bidder. We believe this approach is the best way to avoid concerns about utility self-dealing or where there may be an unfair competitive advantage over other bidders. Regarding input from all parties, we believe such input should be upfront and limited to comments on the bid evaluation criteria.

In the case where neither the utility nor its affiliate is a bidder, HREA can support the utility should choosing a project with the help/oversight of the independent consultant, and the independent consultant should also report to the PUC to say whether the choice was fair and should be approved by the PUC.

- c. Is an Independent Consultant required for all competitive bids – or only those where a utility affiliate does not compete?

HREA Response: HREA supports use of an Independent Consultant for all competitive bids. However, we do see that the role of the Independent Consultant would vary depending on whether the utility or a utility-affiliate were choosing to or were allowed to bid. We have already discussed the desired role of the Independent Consultant (also referred to as: Independent Contracting Agent or Independent Evaluator) in our response to PUC-IRs-23, 24, 56, and 60.

Per our response to part b. above, HREA can support the use of an Independent Consultant in competitive bidding processes in which neither the utility nor a utility-affiliate is a bidder. Specifically, Independent Consultant's role would be to:

1. review and comment on the design of the RFP by the utility prior to approval by the PUC;
2. monitor the evaluation and selection process;

3. provide the PUC with an overall assessment of whether the goals of the RFP were achieved, including solicitation of sufficient competitive bids were received and the results of the RFP were fair and unbiased; and
4. provide recommendations or suggestions for improving the competitive bidding process.

**PUC-IR-66 (All Parties) Ref: CA SOP at 59; HECO-CA-IR-64.**

- a. If the Commission adopts the guidelines recommended by the Consumer Advocate, and implements these concepts, are these sufficient to ensure that a utility's participation in the competitive bid process is fair?

HREA Response: HREA supports the proposed guidelines with the following comments:

- a. While the guidelines serve as a useful overall policy statement, the guidelines must be accompanied by a definition and "fleshing out" of the details of the competitive bidding process. This clearly includes:
  - i. Defining and implementing a critical overall role of the PUC,
  - ii. Reviewing and approving of all RFPs by the PUC, and its Independent Consultant with inputs from the Advisory Groups and industry experts, and
  - iii. Reviewing and approving of the proposals selected by the utility and/or recommended by an Independent Consultant.
- b. HREA notes that "backstop" proposals will not be needed for all competitive bidding processes, e.g., for resources that the utility does not or is not allowed to compete for, which could be the case for DSM options and renewable projects.
  - b. What are the advantages and disadvantages of adopting these guidelines?

HREA Response: As noted above, HREA sees an advantage in having some overall policy guidelines for the competitive bidding process in Hawaii. We see no disadvantages in adopting these guidelines subject to further review and comment from the Parties and the PUC.

c. What other safeguards should be adopted?

HREA Response: See our response to part a. above.

**PUC-IR-67 (All Parties) Ref: HECO-CA-IR-48 states:**

The Consumer Advocate recommends that each electric utility should be expected to design bid evaluation processes that are specific to the circumstances of each competitive solicitation, and in keeping with "best practices" in the industry.

To the extent that this approach could potentially allow a utility to tailor specific bid evaluations to favor certain bidders, what safeguards can be implemented to prevent this?

HREA Response: As we have stated previously, the PUC must establish and maintain a critical, proactive role in the competitive bidding process. This includes, on a case-by-case basis, use of an Independent Consultant, and review and input by the IRP Advisory Groups and industry experts.

**PUC-IR-68 (All Parties) Ref: HECO-CA-IR-68.**

The Consumer Advocate suggests a generic policy intended to balance the needs for "transparency" and confidentiality during the bid review process. Please provide specific suggestions on how this balance can be met.

HREA Response: HREA believes that needs for "transparency and confidentiality" can be balanced during the bid review process. Specifically:

1. The need for transparency starts with the initial preparation of the RFP, including the clear description in the RFP regarding the evaluation criteria and the evaluation and selection process;
2. The need for confidentiality also starts with the initial preparation of the RFP, including a clear description of how bidder's confidential data and information will be identified and protected;

3. The need for transparency and confidentiality continues during the evaluation, selection and award process, and we believe the following steps can be taken to mitigate potential disputes:

- i. Re transparency: only an executive summary of results of the evaluation process should be presented to entities other than the evaluation team, Independent Consultant and the PUC. Such entities could include the IRP Advisory Groups, all bidders on the specific RFP, and the general public through a press release(s) authorized by the PUC. The executive summary should identify the winning proposal(s), but should not include the relative scoring of each of the proposals, and the strengths and weaknesses of each of the proposals; and
- ii. Re confidentiality: no confidential information should be released, under a protective agreement, to entities other than the evaluation team, Independent Consultant and the PUC.

**PUC-IR-69 (All Parties) HECO-CA-IR-10.**

- a. Should bidders' track record on past projects be a factor in selection and if so, how significantly should it be weighted? What elements of the track record should be considered?

HREA Response: Yes. The bidders' experience including performance on related projects should be a significant evaluation criterion, perhaps as much as 20%, assuming a quantitative scoring system. Specifically, bidders should be evaluated on:

- a. Company History: number of years in business, description of products and services, number of employees, annual gross revenues, etc.;
- b. Relevant Experience: number and types of relevant projects, cost and performance data (including installed costs, operating and maintenance costs, and delivered or avoided cost of energy, etc.);

- c. Relation of Experience to the Bidder's Proposal: is the project identical or similar to another project already completed and operational, is the project is an extension of another project already completed and operational (what are the relative benefits and risks associated with the proposal, etc.); and
  - d. Relation of Company Products, Services and Experience: how do the company's products, services and experience compare with other companies offering similar products and services?
- b. Will according significant weight to a track record cause newer generators without track records or smaller independent companies to lose out to more established utility affiliates or large independents? Should the Commission be concerned about this impact?

HREA Response: A track record is or can be a very important factor in selecting a winning proposal. For example, the technical and cost aspects of two proposals may be similar. In most cases, the winner will and should be the company that has the best track record. However, the track record may or may not be directly related to the age or size of the company (i.e., the relevant experience will generally be the more important factor).

The Commission, however, should be concerned about this potential impact, as a company with less experience (Company X) may propose something very novel or innovative that could result in greater benefits than the proposal from a more experienced company (Company Y). If so, the technical scores should reflect the novel or innovative features of the proposal from the Company X. For example, assume Company X proposes to fuel a new combustion turbine facility with biodiesel fuel, while Company Y proposes to fuel an otherwise identical facility with petroleum diesel (petrodiesel) fuel. HREA observes that the evaluation criteria should be designed to capture the full impact of the biodiesel vs. the petrodiesel proposals. For example, in addition to the quantitative evaluation criteria, there could also be a non-quantitative criteria that captures the attributes of such a proposal that perhaps cannot be quantified directly, but clearly support our state policy.

**PUC-IR-71 (All Parties)**

- a. Should the Commission have an active role in the development of the purchase agreement?

HREA Response: Yes, and HREA believes that this role should include overseeing the development of SOC's and monitoring the use of the SOC's in the competitive bidding process and the negotiations of a purchase agreement with the successful bidder (s).

- b. Should an independent consultant be hired to provide input and recommendations to the utility and Commission regarding the drafting of the purchase agreement? If so, who should fund the cost of the independent consultant?

HREA Response: HREA believes that the Commission would benefit from the input and recommendations of an independent consultant in the development and implementation of SOC's as discussed above in part a. Subsequent, HREA recommends that the independent consultant is hired by the Commission to monitor specific competitive bidding processes, in part, to evaluate the effectiveness of the SOC's in simplifying the purchase agreement negotiations. The Commission should fund the cost of the independent consultant.

- c. Should the utility and the winning bidder independently develop the purchase agreement (subject to approval by the Commission prior to its issuance)?

HREA Response: No.

**PUC-IR-72 (All Parties)**

Should a copy of the proposed purchase agreement be included as part of the issuance of the RFP?

HREA Response: Yes. As discussed above, HREA supports the inclusion of SOC's in RFPs.

**PUC-IR-73 (All Parties) Ref: HREA SOP at 10-11; HREA-HECO-IR-11.**

Should there be a standard model purchase agreement to be used for all purchases (with possible minor modifications), or should the purchase agreement for each new transaction be separately drafted?

HREA Response: Yes. We believe the use of SOC's (standard model purchase agreement or PPA) are critical to the success of any competitive bidding process, in which the sale of electricity to the utility is contemplated, for the following reasons:

1. SOCs Level the Field. SOC's, by definition, specify information and data required to describe the project (would require a developer to fill in blanks in the SOC), the term of the power purchase agreement (in years), standard energy and capacity payments (or formulas that can be readily used to calculate the payments), standard interconnection agreements, interconnection studies (with costs to be paid by the developer), distribution of assets and ownership rights (who owns and pays for the facility and any related interconnection infrastructure), and other general terms and conditions that are acceptable to the utility. If a developer agreed to all the provisions and inserted all the information and data required to describe the project, and signed the SOC, the utility would also be obligated to sign the SOC. That is the essence of a SOC, which currently doesn't exist in Hawaii.

In a competitive bidding process, the SOC could be used with one modification. The bidders would be challenged to meet or beat the standard energy and capacity payments. These payments could be on existing avoided costs, or on the anticipated costs of a desired new facility, such as a combustion turbine or a windfarm that the utility is planning to build.

Assuming this approach, each of the bidders would have the same detailed information about the SOC. This would level the field, as each bidder would have the same expectation as to the purchase agreement that the winning bidder (s) would negotiate with the utility.

2. SOCs Increase Transparency and Reduce Uncertainty. Because of the use of the SOC as discussed in part 1. above, the details of the purchase agreement

and the anticipated negotiations become transparent, and this reduces the bidder's uncertainty as to the payments that he could expect, as well as the time and expenses that would be required to negotiate and sign the purchase agreement with the utility.

3. SOCs Help Simplify the Process and Facilitate Competition. HREA believes SOC's will simplify the process and facilitate competition by helping level the field, increasing transparency and reduce uncertainty in the proposal evaluation and negotiation processes. Consequently, more entities will be encouraged to propose, if they have the understanding the SOC's will provide and they perceive that the process will be transparent and fair.
4. SOCs Will Decrease the Time to Solicit and Award Purchase Agreements. It follows from the items above, that the less time will be required to prepare and release the RPF, for bidders to propose, the evaluation team to recommend winning proposals, the PUC to review and approve, and the winning bidder (s) to negotiate a purchase agreement.

**PUC-IR-74 (All Parties) Ref: HECO-CA-IR-17.**

- a. To what extent should the price and non-price terms of a purchase agreement be subject to subsequent negotiation with the utility and amendment, if the changes are beneficial to both parties and the ratepayers?

HREA Response: This is a really good question. Given the essence of the SOC as described above our response to PUC-IR-73 and also commented on in our responses to PUC-IRs-51, 55, 71 and 72, both the winning bidder and the utility should find the SOC acceptable. HREA also supports the concept that either of the Parties may wish to propose additional price or non-price terms to the purchase agreement. In general, HREA would support the concept, if both Parties agree.

- b. What should be the conditions placed on further negotiation?



HREA Response: As noted in our response to part a. above, neither Party should be allowed to require additional terms from the other. In other words, the primary condition on further negotiation is that both Parties must agree and, specifically, the bidder must not be placed into the position that he must agree on a new term or risk losing the purchase agreement.

- c. If the utility affiliate is the winning bidder, do your answers to (a) or (b) change, or are there safeguards that would allow for further negotiation with the utility?

HREA Response: HREA believes all Parties, including a utility-affiliate or a utility should be treated the same and have the same rights as all other Parties. However, in the case of a winning bid by a utility-affiliate that is subsequently negotiating the purchase agreement with the utility, there may need to be additional safeguards to preclude any changes to the terms as specified in the SOC. Otherwise, we see the potential for "self-dealing."

**PUC-IR-75 (All Parties)** Ref: CA SOP at 61 states:

...the Commission should make explicit that costs would be recoverable through rates on a "pass-through" basis if incurred through an approved contract that results from an RFP issued in response to approved competitive bidding process.

Are there any circumstances where the Commission might disallow costs resulting from an approved contract that results from an RFP and if so, what are they?

HREA Response: At the present time, HREA cannot think of any costs that might be disallowed. However, we would like to raise an issue regarding one type of "pass-through" costs. Specifically, we continue to be concerned about the impacts of the Energy Cost Adjustment Clause (ECAC) to the ratepayer, as well as comfort zone that we seem to have established with respect to the use of fossil fuel. Consequently, HREA would like the PUC to consider the following for solicitations for conventional generators, such as combustion turbines or combined-cycle combustion turbines:

1. requiring bidders, that propose to use petrodiesel as a fuel, provide bids based on at least the following options:
  - i. cost of energy based current fuel costs,
  - ii. cost of energy (per delivered kWhs), based on a 5-year fuel contract, and
  - iii. cost of energy (per delivered kWhs), based on a 10-year fuel contract;and
2. suggesting bidders propose, as an alternative, to use biodiesel as a fuel with the same options:
  - i. cost of energy based current fuel costs,
  - ii. cost of energy (per delivered kWhs), based on a 5-year fuel contract, and
  - iii. cost of energy (per delivered kWhs), based on a 10-year fuel contract.

**PUC-IR-76 (All Parties) Ref: HECO-CA-IR-19(b).**

- a. In the future, how should we evaluate to what extent the competitive bid process has been "successful" - what are the specific factors that can and should be recorded and evaluated?

HREA Response: See also our responses to PUC-IRs-30 and 71. Specifically, HREA supports the use of an Independent Consultant to review and evaluate all competitive bidding processes. The evaluation criteria for determining success should include:

- a. Did the solicitation result in a sufficient number of competitive proposals;
- b. Were the overall goals of the solicitation met – technical, cost, schedule, other;
- c. Were purchase agreements negotiated and projects subsequently constructed and operated as planned;
- d. Did the process meet or exceed the established competitive bidding guidelines;
- e. Were any aspects of the bidding process disputed by any of the Parties, and were the disputes resolved satisfactorily; and
- f. What were the lessons learned and how could they be applied to future solicitations?

- b. Should we set target values for these factors, such that continuation or amendment of the competitive bid process may be contingent on meeting these target values?

HREA Response: To the extent that targets can be established, e.g., cost of energy, schedules, etc., HREA agrees that achievement or not of these targets could provide the basis for modification of the bidding process.

- c. What is the appropriate process and time frame for review of the success of the competitive bid process?

HREA Response: HREA would estimate the review process should take an additional three months beyond the time required for the bidding process itself. Specifically, the Independent Consultant would need to monitor the process start to finish.

**PUC-IR-77 (All Parties) Ref: CA SOP at 56 states:**

If a utility can demonstrate that it is doing a particularly good job in resource procurement, the Commission should consider an increase to its allowed return. Conversely, poor performance will require the consideration of a reduction.

- a. What criteria should be applied to determine whether a utility is doing a "good job" in competitive resource procurement?

HREA Response: HREA believes the following criteria should be applied to determine whether a utility is doing a "good job" in competitive resource procurement:

- a. Were technical (including environmental impacts), cost (including overall impacts to the states economy) and schedule goals (including meeting our RPS) met or exceeded;
- b. Were all competitive bidding processes evaluated to be successful, as discussed previously (see our response to PUC-IR-76); and
- c. Was (were) the resulting project (s) truly the best deal (s) for the ratepayers.

- b. What factors, such as savings or added efficiencies, would a utility have to demonstrate to qualify for an added rate of return?

HREA Response: At the present time, HREA suggests that a 10% or greater savings or added efficiency be required as a threshold for qualification of an added rate of return. We are interested in what the other Parties have to say on this issue, and reserve the right to provide additional comments at a later time.

- c. **(All parties except CA)** Do you agree that an increase in return is justified for a utility that successfully implements competitive bidding?

HREA Response: Given that there are a number of potential avenues for the utility to successfully implement competitive bidding and at the same time achieve our state goals to reduce our dependence on imported fossil energy, HREA can support an increase in return. However, there needs to be more discussion on how to structure such a performance-based reward approach without placing undue risk on the ratepayer. We are interested in what the other Parties have to say on this issue, and reserve the right to provide additional comments at a later time.

\*\*\*\*\*

END OF HREA's RESPONSE TO PUC INFORMATION REQUESTS

\*\*\*\*\*

DATED: June 9, 2005, Honolulu, Hawaii

  
President, HREA

### CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing responses to the PUC IRs Requests upon the following parties by causing a copy hereof to be hand-delivered or mailed, postage prepaid, and properly addressed the number of copies noted below to each such party:

Party		Party	
DIVISION OF CONSUMER ADVOCACY 335 Merchant Street Room 326 Honolulu, HI 96813	3 copies	SANDRA-ANN Y. H. WONG, ESQ. 1050 Bishop Street, #514 Honolulu, Hawaii 96813	1 copy
THOMAS W. WILLIAMS, JR. ESQ. PETER Y. KIKUTA, ESQ. Goodsill, Anderson, Quinn & Stifel Alii Place, Suite 1800 1099 Alakea Street Honolulu, Hawaii 96813	1 copy	CHRISTOPHER S. COLMAN Deputy General Counsel Amerada Hess Corporation One Hess Plaza Woodbridge, N.J. 07095	1 copy
WILLIAM A. BONNET, Vice President Hawaiian Electric Company, Inc. Hawaii Electric Light Company, Inc. Maui Electric Company, Limited P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy	MICHAEL DE'MARSI Hess Microgen 4101 Halburton Road Raleigh, NC 27614	1 copy
PATSY H. NANBU Hawaiian Electric Company, Inc. P. O. Box 2750 Honolulu, Hawaii 96840-0001	1 copy	BRIAN T. MOTO, CORPORATION COUNSEL County of Maui Dept. of the Corporation Counsel 200 S. High Street Wailuku, HI 96793	1 copy
KENT D. MORIHARA, ESQ. MICHAEL H. LAU, ESQ. 841 Bishop Street, Suite 400 Honolulu, Hawaii 96813	2 copies	CINDY Y. YOUNG, DEPUTY CORPORATION COUNSEL County of Maui Dept. of the Corporation Counsel 200 S. High Street Wailuku, HI 96793	1 copy
H.A. DUTCH ACHENBACH JOSEPH McCRAWLEY MICHAEL YAMANE Kauai Island Utility Cooperative 4463 Pahe'e Street Lihue, Hawaii 96766	1 copy	KALVIN K. KOBAYASHI, ENERGY COORDINATOR County of Maui Department of Management 200 S. High Street Wailuku, HI 96793	1 copy

**Party**

LANI D. H. NAKAZAWA, ESQ.  
Office of the County Attorney  
County of Kauai  
4444 Rice Street, Suite 220  
Lihue, HI 96766

GLENN SATO, ENERGY  
COORDINATOR  
c/o Office of the County Attorney  
County of Kauai  
4444 Rice Street, Suite 220  
Lihue, HI 96766

**Party**

2 copies RICK REED  
Inter Island Solar Supply  
761 Ahua Street  
Honolulu, HI 96819

1 copy

1 copy JOHN CROUCH  
Box 38-4276  
Waikoloa, HI 96738

1 copy

Dated: June 9, 2005

  
President, HREA